

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 6791**

**BILL NUMBER: HB 1607**

**DATE PREPARED: Jan 5, 2001**

**BILL AMENDED:**

**SUBJECT:** Local Option Sales Tax for Property Tax Replacement.

**FISCAL ANALYST:** John Parkey, Bob Sigalow

**PHONE NUMBER:** 232-9854, 232-9859

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides that a county council or city-county council may adopt and impose a local option sales tax of up to 0.5% on retail transactions in the county. It also provides that the revenue from the tax shall be used for property tax replacement credits for civil taxing units in the county.

**Effective Date:** July 1, 2001.

**Explanation of State Expenditures:** Unless counties which impose the sales tax adopt a specific ordinance requiring that the tax be submitted to a county treasurer, local option sales tax revenue would be submitted and processed through the Department of State Revenue. The impact on the Department will depend on the size and number of counties which adopt the tax. As a point of reference, the Department's costs for the administration, audit, and collection of food and beverage taxes (another local option sales tax) are approximately \$0.51 for every \$100 collected.

In addition to the costs associated with the collection sales tax revenue, the Department of Revenue would also be responsible for the distribution of certified amounts to adopting counties. Each calendar year, counties would receive a certified distribution in the amount that the Department of State Revenue estimates (upon recommendation of the State Budget Agency) will be generated in that county from the local option sales tax from July 1 of the previous year through June 30 of the current year. The distribution would be made in two installments, with 50% being distributed by May 1 and the remaining amount by November 1. The bill provides that the certified distributions shall be treated as property tax replacement credits. It is expected that the Department's current resources would be sufficient to absorb any additional costs associated with this proposal.

The State Budget Agency, however, may incur additional administrative expenses associated with estimating the certified distribution made to counties adopting local option sales tax. The impact on the Budget Agency will be determined by the number of adopting counties.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** This bill allows counties to adopt and impose a countywide local option sales tax of up to 0.5% on retail sales. According to the state's most recent revenue forecast, if all the state's 92 counties were to adopt the tax at the maximum rate of 0.5%, they would share in tax revenues of approximately \$394.2 M in FY 2002 and \$413.9 M in FY 2003.

Revenue generated in the counties that implement a local option sales tax would be allocated as property tax replacement credits among the civil taxing districts within the counties that adopt the tax. It is estimated that if all of the state's counties adopted the tax at the maximum rate of 0.5%, the state's total net property tax levy could be reduced by approximately 7% each year of the coming biennium. The state's total net property tax levy is estimated to be approximately \$5,389 M payable in CY 2002 and \$5,676 M payable in CY 2003.

The yearly certified distribution would be made in two installments, with 50% being distributed by May 1 and the remaining amount by November 1. County auditors in the adopting counties are required to allocate the certified distribution as property tax replacement credits among the civil taxing units in proportion to each unit's share of the total amount of property taxes collected in the county. The civil taxing units would be required to treat any property tax credits received during a particular year as a result of this bill as part of its property tax levy for budgetary purposes and for purposes of the units' maximum permissible property tax levy limits. If a civil tax unit were at its maximum levy before the imposition of the Local Option Sales Tax, any additional revenue would have to be used to reduce the property tax levy. For units under the maximum levy, all or part of the additional sales tax revenue could be used as additional revenue without an adjustment to the unit property tax replacement levy as long as the unit's property tax levy plus replacement revenue does not exceed the maximum permissible levy.

County level information for the Local Option Sales Tax is available from the Office of Fiscal and Management Analysis.

**State Agencies Affected:** Budget Agency; Department of State Revenue; Treasurer of State; Auditor of State; State Board of Tax Commissioners.

**Local Agencies Affected:** County fiscal bodies; County Treasurers; County Auditors.

**Information Sources:** *December 19, 2000, Revenue Forecast Update.*